

# **FISCAL NOTE**

## **SB 2802 – HB 3186**

February 27, 2006

**SUMMARY OF BILL:** Authorizes a tax credit, applicable to any future franchise, excise, or sales tax return, in the amount of sales tax paid by any taxpayer who is a recipient of a small business innovation research program grant and who invests a minimum of \$500,000 on qualified buildings or machinery and equipment that will be used for the primary purpose of research and development, pilot-scale manufacturing or the commercial application of qualified research and development. Requires taxpayer to apply for authorization and to be approved by the Department of Revenue (DOR) before commencing any such project.

### **ESTIMATED FISCAL IMPACT:**

**Forgone State Revenues – Exceeds \$140,000**  
**Increase State Expenditures - \$10,000 One-Time**

**Forgone Local Govt. Revenues – Exceeds \$22,500**

#### **Assumptions:**

- The Commissioner of the Department of Revenue (DOR), acting in consultation with the Commissioner of the Department of Economic and Community Development (ECD), must find that the opportunity to receive state taxation credit comprises a major determinative factor in the taxpayer's decision to proceed with the proposed project in Tennessee and that the project is economically desirable and in the best interests of the citizens of this state.
- There are approximately 40 grants awarded to small businesses each year from the Small Business Innovation Research Program in Tennessee.
- Total amount of grants estimated at \$10.0 million per year.
- Average grant per business is approximately \$250,000 ( $\$10,000,000 \div 40 \text{ grants} = \$250,000$ ).
- 10% of businesses (4) invest the \$500,000 minimum required.
- Forgone state revenues resulting from tax credit is estimated to exceed \$140,000 ( $4 \text{ taxpayers} \times \$500,000 \text{ minimum investment} \times 7\% \text{ state rate} = \$140,000$ ) per year.

- Local governments have the option of crediting taxpayer for taxes not allocated exclusively for educational purposes.
- Typically, one-half (50%) of local taxes are allocated for education.
- Forgone local government revenues resulting from tax credits are estimated to exceed \$22,500 (4 taxpayers X \$500,000 investment X 50% credit X 2.25% local option rate = \$22,500) per year.
- No new positions in Department of Revenue.
- One-time increase of state expenditures for software modifications and form development estimated at \$10,000.

### **CERTIFICATION:**

This is to duly certify that the information contained herein is true and correct to the best of my knowledge.

A handwritten signature in black ink, reading "James W. White". The signature is fluid and cursive, with the first name "James" and last name "White" clearly legible, and "W." in the middle.

James W. White, Executive Director